SAINT LUCIA

Table 1	2023
Population, million	0.2
GDP, current US$ billion	2.5
GDP per capita, current US$	13980.1
International poverty rate ($2.15)[a]	0.1
Lower middle-income poverty rate ($3.65)[a]	0.6
Upper middle-income poverty rate ($6.85)[a]	8.4
Gini index[a]	43.7
School enrollment, primary (% gross)[b]	103.7
Life expectancy at birth, years[b]	71.1
Total GHG emissions (mtCO2e)	1.1

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2015), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Saint Lucia's economy, heavily reliant on tourism and imports, was hit hard by the pandemic and price increases of imported food and fuel. This resulted in soaring public debt and debt service, limiting the available fiscal space to invest in development projects. Price increases also slowed down the recovery of living standards coming out of the pandemic. Structural reforms supporting the private sector are needed to rebuild fiscal buffers, create jobs, and enhance poverty reduction.

Key conditions and challenges

Saint Lucia is highly dependent on tourism and was severely affected by the pandemic, followed by increases in import prices for food and fuel. These price increases put pressure on living costs, especially for the most vulnerable. Frequent natural disasters and the effects of climate change cause significant socioeconomic losses. As a small open economy, economic growth had been volatile and relatively low even before the pandemic, averaging 1.3 percent between 2010 and 2019. This was attributable to several factors such as natural disasters and the country's reliance on tourism. Less than 1 in 10 Saint Lucians were poor in 2015 (latest available data, at $6.85 poverty line, 2017 Purchasing Power Parity). Inequality was high, however, with a Gini index above 40. In line with slow growth, no meaningful reductions in poverty are expected to have taken place in the pre-pandemic period. However, projections indicate that the pandemic-related crisis and the subsequent surge in food and fuel prices increased poverty.

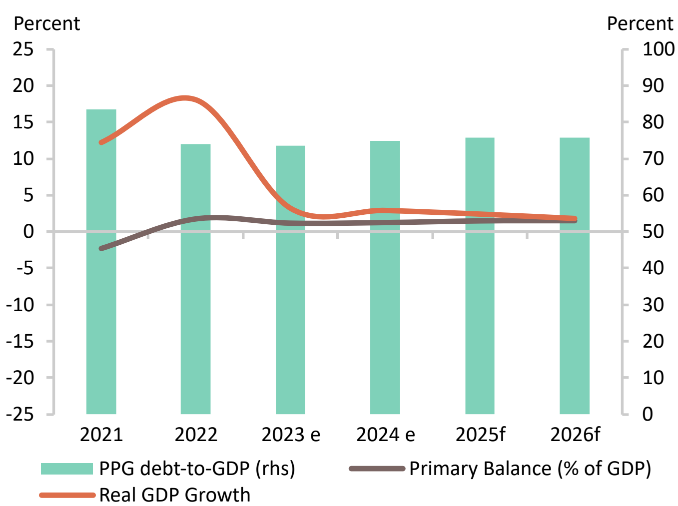
Pandemic-related spending, low revenues, and sizeable public investment to support growth led to a rapid rise in public debt in 2020. Public debt is expected to stabilize over the medium term, but high debt service limits the government's space to fund critical development projects in the near term. The government has implemented several revenue enhancing measures, but additional reforms should be explored to reduce distortions and design a more progressive tax framework. Given the continued high public debt level and Saint Lucia's vulnerability to external shocks, the country would benefit from a credible and growth-friendly fiscal consolidation and the implementation of a fiscal rule, which should be complemented by selected reforms to unlock private sector growth.

The financial sector remained stable and liquidity in the banking sector was sizable. Nonetheless, the build-up of non-performing loans and gaps in compliance with Anti-Money Laundering/Countering the Financing of Terrorism impeded credit intermediation. The pegged exchange rate under the Eastern Caribbean Currency Union helped maintain low inflation before the pandemic and anchored price stability.

Recent developments

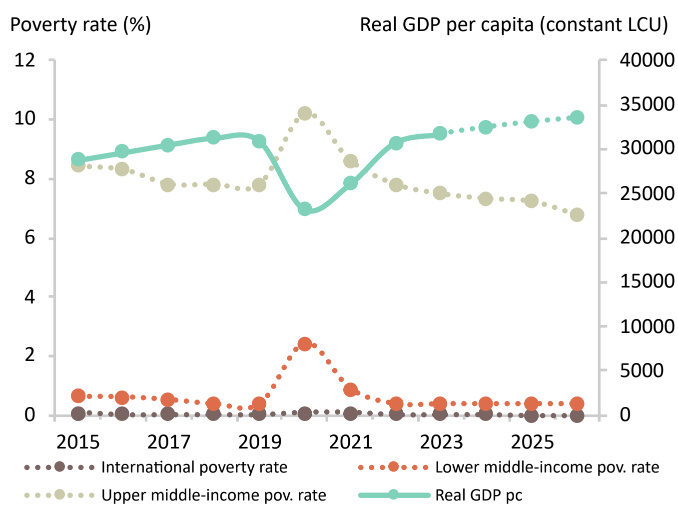
Real output growth started to decelerate in 2023, as stayover tourism began to slow down in 2023 after a strong increase of 78.7 percent in 2022. In 2023-Q3, stayover tourism remained 12.4 and 20.6 percent below its 2022 and 2019 levels, respectively. The suspension of trade with the United Kingdom, along with the unfavorable weather conditions led to a decline in banana and other agricultural exports in 2023. A labor market recovery - in conjunction with high growth - was reflected by the declining unemployment rate, from 23.0 percent in 2021-Q2 to 17.5 percent in 2022-Q2, helping to bring down poverty.

FIGURE 1 **Saint Lucia** / Key macroeconomic variables



Source: World Bank staff calculations.

FIGURE 2 **Saint Lucia** / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

The current account deficit continued to narrow to 0.8 percent in terms of GDP in 2023 as the recovery in tourism outpaced higher costs of food and fuel imports. Remittances in 2023 are estimated to have fallen slightly from 2022 and peak 2021 levels but are still above their pre-pandemic level. Foreign direct investments were 1.1 percent of GDP in 2023, owing to increased investment in tourism-related sectors, fully funding the current account deficit. International reserves increased to 3.9 months of imports in 2023.

Inflation started to slow in 2023 (3.7 percent) in tandem with global projections and the moderating economic recovery. This eased pressure on food security, which had worsened in 2022 as a result of the successive pandemic and food price shocks experienced in the past few years. The financial sector showed signs of growth in deposits, though risks remain elevated.

In 2023, the overall and primary fiscal balances deteriorated slightly compared to their 2022 levels. This was driven by lower tax revenues, resulting from slower-than-anticipated tourist arrivals and economic activity. The public wage bill decreased in terms of GDP, despite retroactive payments related to the past triennial wage negotiation, costing EC$40 million in FY22/23. Public sector debt increased from 62.2 percent of GDP in 2019 to 95.8 percent of GDP in 2020 as output plummeted, and the fiscal deficit ballooned. By 2023, a solid recovery and improvements in the fiscal deficit reduced public debt to 73.6 percent of GDP.

Outlook

Real output growth is projected to moderate to 2.9 percent in 2024 and to slow further over the medium term. Investments in major construction projects, such as the airport renovation and construction of several major hotels, are expected to peak in 2024. Agriculture is expected to grow sluggishly over the medium term, as supply-side constraints persist. Poverty is expected to continue its downward trend in the medium term. Inflationary pressures are expected to ease over the medium term.

The primary fiscal surplus is projected to be 1.2 percent of GDP in 2024, with an average of 1.4 percent over the medium term. The government has announced several new tax policies including the health and citizen security levy and the increase in cigarette excise tax. These are expected to boost annual revenues (EC$40.4 million) and have, at most, mildly regressive distributional effects in the short term. Medium-term total expenditure projections are 1.2 percent lower than the 10-year pre-pandemic (2010-2019) average, with notable containments of spending on government purchases. Interest payments are projected to remain stable at around 3.3 percent of GDP over the projection period, reflected in the overall deficit. Public debt is projected to marginally increase to 75.8 percent of GDP in 2025, as the government issues debt to finance infrastructure projects, stabilizing in the medium term.

Risks are tilted to the downside and include: (i) delayed implementation of fiscal consolidation measures; (ii) more profound economic deceleration in the main tourism source countries; (iii) rising geopolitical tensions; (iv) tightening financial conditions; (v) natural disasters; and (vi) climate change.

TABLE 2 Saint Lucia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	12.2	18.1	3.2	2.9	2.4	1.8
Real GDP growth, at constant factor prices	8.8	17.2	3.2	2.9	2.4	1.8
Agriculture	9.1	4.5	-8.7	0.5	0.9	0.9
Industry	9.3	1.7	4.5	3.6	2.6	2.6
Services	8.7	20.5	3.3	2.8	2.4	1.7
Inflation (consumer price index)	4.1	6.9	3.7	2.0	2.0	2.0
Current account balance (% of GDP)	-7.1	-2.3	-0.8	-0.4	-0.2	0.0
Fiscal balance (% of GDP)[a]	-5.8	-1.2	-2.1	-2.1	-1.9	-1.9
Revenues (% of GDP)[a]	22.8	21.8	21.2	21.0	21.3	21.3
Debt (% of GDP)[a,b]	83.6	74.1	73.6	74.9	75.8	75.7
Primary balance (% of GDP)[a]	-2.4	1.7	1.1	1.2	1.4	1.5
International poverty rate ($2.15 in 2017 PPP)[c,d]	0.1	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	0.9	0.4	0.4	0.4	0.4	0.4
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	8.6	7.8	7.5	7.3	7.2	6.8
GHG emissions growth (mtCO2e)	19.6	22.1	7.4	6.1	5.3	4.5
Energy related GHG emissions (% of total)	71.6	70.3	68.5	66.5	64.5	62.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal balances are reported in fiscal years (April 1st -March 31st).
b/ Public debt includes payables and overdrafts/Eastern Caribbean Central Bank advances.
c/ Calculations based on CONLAC harmonization, using 2015-SLCHBS. Poverty estimates and projections shown here are not comparable to those shown in previous MPOs due to methodological changes. For details, see March/April 2024 Update to the Poverty and Inequality Platform (PIP) at https://pip. worldbank. org/publication. Actual data: 2015. Nowcast: 2016-2023. Forecasts are from 2024 to 2026.
d/ Projection using neutral distribution (2015) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.